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THE DAY'S WORK IN WALL STREET

By FREDERICK S. TODMAN

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The Day's Work in Wall Street

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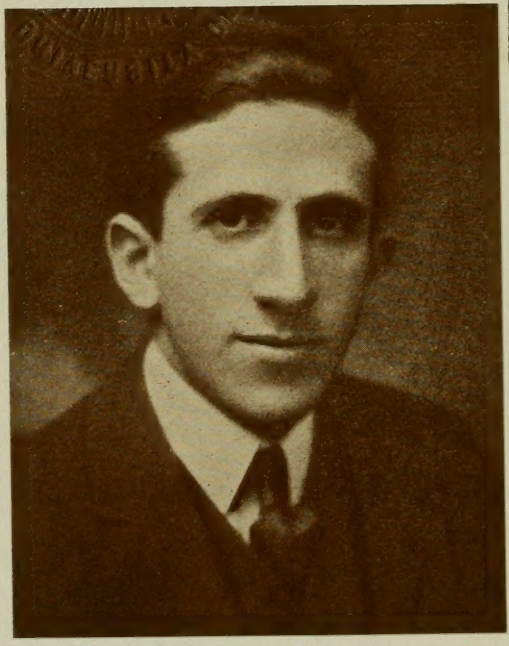

FREDERICK S. TODMAN

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Mr. Todman was born in New York City and received his early education in the grammar schools and the De Witt High School of that city. Subsequently he was graduated from New York University, which institution later bestowed upon him the degree of Master of Commercial Science.

Mr. Todman early specialized in the subject of finance with particular reference to the work of Wall Street and the Stock Exchanges. On these subjects he has written extensively for the magazines and the public press.

In 1916 Mr. Todman's book "Brokerage Accounts" was published by the Ronald Press. This work is regarded as a standard contribution to the literature of Wall Street. His interest in educational work led Mr. Todman in 1914 to identify himself with the Financial Department of the New York University School of Commerce, Accounts and Finance, where he lectures regularly to the students on the subjects on which he has become an authority.

In 1917 Mr. Todman resigned his position as manager of Charles Fairchild & Company, bankers and brokers, to associate himself with the banking house of Hirsch, Lillienthal & Company of New York.

NOTE:—This Lecture, which is based upon the author's ripe experience in his special field, should be read in the light of the Modern Business Text, and should be studied as an authoritative message from the field of business activity.

The Day's Work in Wall Street

By

FREDERICK S. TODMAN

Probably few persons outside the stock broker's office fully understand the minutiæ of the game of fortune-making in the stock market. Everything is so technical: the abbreviations on the ticker, the parlance of the street and the sign language used by the Curb gentry. To the initiated, even the multi-colored caps worn by the Curb boys mean something in the conduct of this business. Nor is it surprising that such technical means and curt methods are employed when one considers that daily within the space of five hours transactions involving many millions of dollars are consummated.

Mistakes in this business are always costly. In it there is no room for those who are incapable. Only red-blooded, keen-eyed, clear-headed, quick-thinking men can be used in Wall Street. Others sooner or later fall by the wayside.

WHERE ACCURACY IS ESSENTIAL

Accuracy plays such an important part in these transactions that to misunderstand almost invariably means financial loss. Not long ago a customer en-

tered an order with his broker to buy 100 shares of Bethlehem Steel at 540. The market price at the time was 550 bid, 570 asked. Ten minutes after quoting the price to the customer, the purchase was reported. This involved an outlay of cash amounting to $54,000. In checking his records, the broker found that the order called for a sale of the stock, not a purchase. He had committed an error in taking instructions over the telephone and found himself with 100 shares of a very speculative stock on his hands. He had to impose upon the seller to carry the deal over till the following day so that he might sell out without a loss. What is more, he had to assume the customer's stock at 540, because the latter could easily have sold at that price had the broker been careful.

It may be mentioned that custom among brokers makes it compulsory to "turn in" or carry out the customer's orders where he is damaged thru the broker's carelessness. The following day Bethlehem Steel sold at 562, and thus luckily a profit instead of a loss appeared in the Error Account. That experience taught the broker to instruct his telephone operator to "listen in" whenever an order is received over the 'phone and to make a written memorandum of it for verification purposes, so as to avoid a repetition of that mistake.

Where Honesty is the Only Policy

The question is sometimes asked, "Are all brokers honest?" The answer is that they are as honest as any business man must be upon whom his customers

rely entirely in transactions of a most confidential fiduciary nature. To be otherwise is virtually to commit financial suicide. Dishonesty, if proved, invariably leads to expulsion from the Stock Exchange—a punishment which in dollars and cents alone means an immediate loss of at least $75,000, the present value of the broker's Seat. It means also the loss of all commission-earnings, which during a single year may reach into six figures.

The average Stock Exchange member is trained to be honest. The laws governing the conduct of members on the Board also foster that habit, so that it does not take very long for the dishonest ones to be weeded out of the fraternity. Yet abundant opportunity is afforded to commit violations of professional ethics. For example: The broker may receive an order to buy 100 shares of a certain stock in which there is great market activity. Let us say that the customer places with his broker an order to buy Baldwin Locomotive at the best price possible, i.e., "at the market." This order might be filled at 115 and held for a few minutes before reporting the transaction back to the office. If the stock advances in the meantime, the broker has an opportunity, if he wishes, to assume the purchase for his own account at 115, forthwith sell 100 shares at 118 and buy 100 shares at 118 for the customer's account. There are other equally obvious cases which might be discussed in connection with dishonest dealing, but it is sufficient to say that ways and means are always at the disposal of the broker if he chooses to be unscrupulous. It is quite

obvious, however, that in dealing unethically with his client the broker violates a trust. It is also a legal fact that the laws of Principal and Agent are being evaded when the broker assumes for himself the profits which rightly belong to his principal. Nor can he legally compete with his principal by bidding against him. Not long ago a very promising young man was expelled from the Exchange for violating the trust reposed in him by his customer.

As between the buying broker and the selling broker, the degree of trust and faith is so great that millions of dollars of values, passing current many times during the day, are exchanged merely by a nod of the head, a wave of the hand or a spoken "Bought" or "Sold." The surprising feature of this sort of trading is that the percentage of loss occasioned thru misunderstanding is not greater than it is. Even in a large brokerage house disputes arising from misunderstanding rarely involve a loss of $100 during an entire year.

Visiting a Broker's Office

Suppose we step into a modern brokerage office for a moment. The market, say, has just opened and we'll be able to get a close-up view of the action. The rush is now at flood-tide. A ferocious market may have caught the broker unprepared for the task which confronts him. It is not uncommon under such circumstances to be compelled to improvise sleeping quarters for the clerical staff. On a single day's sheet there may be recorded more than 65,000 shares.

The customer's room contains private trading offices for those who can't mix very well with the other fellows. They are the large operators of the office. The soft hangings, the oriental rugs and the rich mahogany furniture all suggest ease, comfort and facility for work. One sees the electric news-tickers, the stock-tickers, the quotation boards, and perhaps an excited group of customers whose eyes seem glued to "G M O" (General Motors) which has just advanced from 660 to 700 per share.

In the "Back Offices" there is evidence that right now the entire country is ablaze with speculative frenzy. Apparently the idea of making money in the stock market has gripped bell-boy, chamber-maid and capitalist alike. The war boom proved to be the greatest market force since the panic of 1901—the so-called Northern Pacific Panic. The broker hopes that the present speculative bubble doesn't burst before his customers have let go of their holdings!

The Brokerage Nerve Center

The "Wire Room" is, so to speak, the nerve center of the broker's organization. The mass of wires seen there is simply necessary equipment for the broker if he is to prove equal to the task imposed upon him by war market conditions.

There are private telephones leading to the Exchanges; also telephones that lead to the broker's branch offices. In one corner we may find half-a-dozen wires leading to the West and the South. Every order, whether for one share or 10,000 shares,

passes over the Stock Exchange wires. Every execution of those orders is reported back to the order clerk who is in charge of that department. This division is constantly on the jump from the moment the Market opens until the close of the Exchange.

As an example of the speed with which orders are executed, the following will serve: The London office cables in Hartfield's Code: Smitell, N.Y. DEPEFHENEP. The cable when decoded is found to be an order to sell 1,000 shares of United States Steel Common at the market price. The order is entered, executed, coded to London, and actually sent within three minutes from the time of receipt! Another order arrives from Philadelphia over a private wire. It directs the sale of 500 shares of Union Pacific at 142. At the same time an office customer orders the purchase of 500 shares of the same stock at the same price.

This is not an isolated incident, since orders of that sort are received almost daily. Both orders are at once phoned to the Board for execution, if the market price permits it. The clerk in charge pushes his signal button. The floor broker's number is flashed on the signal board which he watches from time to time, and a second later a page boy is on his way carrying to him the orders just received. With a jump the broker is at the Union Pacific post offering 500 shares of the stock at 142⅛ with no one accepting the offer. He is, however, merely acting according to the rules of the Exchange, which make it necessary under such circumstances to offer what stock one has for sale at

a price of ⅛ point above the price which is to operate on the buying order also entrusted to him for execution. Being unable to sell the stock at the higher price, he may now turn to the reporter at the "post" and inform him that 500 shares of Union Pacific were bought and sold on "order" at 142. The office is then notified of the purchase and sale, and immediately the respective customers are advised of the commitments.

When the Tape was Late

It is a common thing to see a customer approach the order window in the broker's office and ask for a quotation on a stock in which he is interested. At times this is not without pathetic interest. Recently a certain Mr. Blank bought some Crucible Steel. That was just before a break of 15 points in that stock took place. Before that break very little stock had been printed on the ticker tape, and the anxious owner of Crucible Steel was at the order window every five minutes inquiring as to the "bid and asked" price on the stock. On the day in question it closed at 89⅝ and he entered a stop-loss order to sell his holdings at 87. This meant that as soon as the price declined to 87, the order to sell would become operative at once and the stock would be thrown on the market for what it would bring. The break was already on its way, however, and the poor owner was sold out at 79¼. Ten minutes before the smash-up, he tried very hard to cancel his selling order, but it seems that the tape was late in showing the violent

decline in price, for the market on the floor of the Exchange was fully six points below the last price appearing on the ticker tape. We say, under such circumstances, that the tape is "late."

Handling the Orders

Not only does the order department attend to the receipt and execution of orders; its efforts are further taxed with the back office work. The stock broker depends upon banks and upon other stock brokers for about 75 per cent of his funds with which to finance the purchases of customers. All orders to borrow funds on collateral stocks and bonds are sent to the floor broker or to the clerk in charge, so that proper arrangement may be made promptly. As every one knows, bankers lend their surplus funds to stock brokers. Every day representative banks of this district are busy lending money on the Board thru their chosen brokers. These operations are all performed in the "Money Crowd" where millions of dollars exchange hands every few hours.

After the close of the market, the purchases and the sales of the different classes of stock are tallied. As a result of these calculations one broker may find that he has bought on balance 5,000 shares of sundry named securities. Other brokers may find that their customers sold on balance, and still others that many of the stocks so sold were not owned by their customers at the time the sales were made. In the last mentioned case, according to the parlance of the Street, such customers made "short" sales with the intention

of buying the shares back later at a lower price. The subsequent buying back is known as "short covering."

These situations lead to the lending of stocks bought on balance or to the borrowing of stocks sold short. Such transactions are made necessary under the law of the Exchange governing the receipt and delivery of securities, which requires that all stocks sold must be delivered upon the next following business day, unless other arrangements were made between the brokers in the transaction at the time the deal was consummated. All stock must be paid for upon delivery. Lending stock to those who require it for the purpose of making delivery against short sales is one way by which the broker borrows money, as on all such stock loans the equivalent of market value is advanced by the broker who desires to borrow the shares.

Selling Borrowed Stock

We can readily understand, however, that stocks are not loaned for an indefinite period; they will be returned to the lender as soon as the borrower has no further use for them, or as soon as the lender demands their return. In the event of stock being loaned, the right to demand is exercised when the person whose stocks were so loaned disposes of them thru sale. The stock for delivery, having been pledged for the money borrowed thereon, will at once be provided by calling upon the broker who borrowed the shares to make return of them against the money involved in the transaction.

As an example of the foregoing: A customer sold 1,000 shares of Studebaker short one week ago. Of course, his broker was compelled to borrow the stock, as it was not available for delivery purposes from the securities which he held for other customers. Another broker loaned these shares and was advanced $150,000 for the use of them. Yesterday the customer covered his shortage by buying 1,000 shares at 136, whereupon the borrowing broker notified the lender that he would return the shares to-day. When the stock is returned he will receive a check for $150,000, which was the sum advanced.

Here again the order clerk is called into service, receiving word to be communicated to the floor member, who in turn will notify those with whom lending or borrowing transactions are made, when the stock so loaned is called in or demanded or returned, as the particular case requires. After three o'clock the débris is removed and the decks cleared for the work of tomorrow. The buy-orders, the sell-orders and the executed orders are all filed away systematically so that checking them becomes a very simple matter.

Listing Executed Orders

The executed orders are listed on Purchases and Sales sheets made out in triplicate. For all orders of 100 shares or multiples thereof, separate sheets are kept. All bonds and odd-lots of stock are listed independently, so that the recording of such items may be hastened without necessitating any classification by the accounting department. The original sheets

are despatched to the bookkeeping division as quickly as they are compiled. One copy is retained by the order department and the other used by the margin clerks for the purpose of calculating the equities or margins remaining in customers' accounts.

During the day the reports from the Stock Exchange reach the Clearing House and the Comparison Departments so that the names of the brokers with whom transactions were made may be entered upon the original Purchases and Sales sheets. The record is now complete and the information appearing thereon shows at a glance the name of the broker from whom shares were bought or to whom they were sold, the quantity so purchased or sold, a description of the shares, the price at which the transaction was closed, the approximate time of filling the order and the name of the customer for whom the deal was made.

As all brokers are compelled under the Stock Exchange rules to verify or compare the daily transactions before ten o'clock the next morning, so-called comparisons are issued in duplicate and sent to the brokers interested. If found to be correct, the comparison original will be retained by the comparing broker and the duplicate will be returned properly acknowledged. If found to be incorrect, the slip will be sent back for correction and an effort made toward adjustment between the offices of the two brokers. If this does not avail, the clerks in charge will refer the matter to the respective Exchange members, who almost invariably effect amicable settlement without having to take the matter to the Arbitration Com-

mittee of the Stock Exchange for adjustment. First-class brokerage houses rarely find it necessary to have any dispute reviewed by that Committee. The aid of the law courts is never invoked, as the Exchange authorities are usually regarded by them not only as Court of Pleading, but also as Jury and Court of Appeals.

Clearing the Transactions

All sales of odd-lots, bonds and hundred-share lots of inactive issues are verified by comparison between the transacting brokers. All other transactions are passed or cleared thru the Clearing House of the New York Stock Exchange. One can hardly imagine the amount of work which would be required if all the transactions on the Exchange had to pass thru the broker's books of account, which would be necessary were there no means of clearing, that is, offsetting them. For in order that the work of the Exchange may not be hampered, it is necessary to provide daily within four and a quarter hours for the exchange of some two hundred million dollars in small amounts; the receiving and delivering of about two million shares of stock and the certification of at least fifty thousand checks. The Stock Exchange gave earnest consideration to that problem back in the 90's, and as a result we have to-day that excellent institution known as the Clearing House by means of which stocks actively dealt in on the Exchange are daily cleared. Such transactions are also compared by means of Clearing House tickets. That is, the seller

sends his tickets to the Clearing House, which acts as a medium for exchanging those tickets so that the broker on either side of the transaction holds the tickets of the other broker. Only shares in denominations of 100 or multiples thereof are passed thru the Clearing House.

At the close of business each day, except Friday, these tickets are assorted according to classes of stock and entered on a Clearing House Sheet which, when completed, is duly filed with the Clearing House authorities. The purchases are grouped on one side and the sales on the other. Purchases and sales of the same classes of stock are matched off, so that only the net balance of shares need be received against purchases or delivered against sales. Thus, a purchase of 5,000 shares of Steel Common might be offset or matched against a sale on the same day of 5,400 shares of the same stock; in which case there would be a net delivery of only 400 shares.

Notice to Customers

That same afternoon the "P&S" (Purchases and Sales) sheets will be used by the Notice Department for the purpose of compiling the memoranda to be sent to customers, informing them of the purchases or sales of the stocks ordered bought or sold by them. These confirmation notices are also made up in duplicate, the original of which is sent to the customer and the duplicate retained by the accounting department for the future use of the bookkeepers.

The copies of the "P&S" sheets in the hands of the

margin clerks are used for the purpose of extracting information for the margin records. All purchases of "long" stock are properly transferred to the respective margin sheets of customers, and the "short" sales are similarly recorded. If there are subsequent sales of long stock or covering of short commitments, the records are changed in accordance with such transactions. The closing prices of the stocks carried on the books are applied to each customer's holdings and the existing margin on such accounts is ascertained by subtracting the difference from, or adding it to, the amount of cash deposited by him for trading purposes.

Margin Transactions

Margins may be in the form of either cash or securities. If the latter, then the process for calculating equities differs somewhat from the method employed when the margin is in cash. The full market price is allowed as trading margin, less that amount which it is necessary to apply as margin on the shares so deposited. For obviously a margin is required on every margin deposited in the form of collateral; and it must not be forgotten that a margin in that form is subject to the same fluctuations as the stock which it protects.

To illustrate: A customer may buy 100 shares of Anaconda Copper at 74. Instead of depositing the usual $1,000 in cash he may choose to deposit 50 shares of Anaconda. He now has 150 shares of this security. His debt to his broker is about $7,400,

but the value of his stock in the broker's hands is $11,100. His equity is accordingly $3,700 on 150 shares. This would be equal to 24 points plus for each share, as in this case margin is required on the collateral deposited as margin. Had he deposited $3,700 instead of the 50 shares of stock, his margin would have been 37 points.

If the customer buys 500 shares of Union Pacific at 154 he will be required to deposit 10 points or at least $5,000 as margin. This is his contribution to the risk which he directed his broker to assume for him. If the closing price at the end of the day is only 149, he will have suffered a paper or market loss of $2,500. This sum deducted from the original amount deposited by him, would reduce his equity to $2,500. In other words, fifty per cent of the amount deposited has been swept away thru a decline of 5 points in the price of the stock.

Itemized, the account stands as follows:

Purchase price of 500 shares at 154	$77,000
Less margin deposited	5,000
Amount which customer owes the broker	72,000
Present value of shares at 149	74,500
Balance or equity remaining in customer's account ($77,000 minus $74,500)	2,500
Number of points margin per share (2,500 divided by 500)	5 points

The customer in this case would at once be informed that his margin was running low and he would be requested to make good the deficiency in the margin standard by sending his check for $2,500. Should he

fail to respond to the margin call and the price continue to decline, his account would be sold out as soon as the diminishing margin approached the point of exhaustion. This is the broker's means of protecting himself. But under no ordinary circumstances will he sell a customer's holdings without first serving notice of his intention to do so. In order not to invite lawsuits the broker always proceeds very deliberately in such cases.

A Suspicious Letter

There are, however, exceptions to all rules, and at times the broker finds it necessary to decide and act quickly in order to protect himself against the schemes of unscrupulous customers. The following incident is a case in point:

Not long ago a certain Mr. Smart (an appropriate name) opened an account with a New York broker. Mr. Smart lived at Berkeley, Georgia. One fine day the broker received from Mr. Smart by mail a cashier's check for $1,500 which had every appearance of genuineness. In the same envelop were instructions to purchase upon receipt of the letter 100 shares of United States Steel "at the market."

The broker wondered why this order had not been telegraphed, which is the usual procedure, instead of being sent by mail. Nevertheless, the order had to be filled and the stock was purchased at 131 The check was deposited in the regular way with a request that the bank make inquiry by wire so that certain suspicions might be promptly set at rest. Five days later

word came from the bank that the check was being returned on account of forgery! The violent fluctuations in stock prices at the time might easily have involved the broker in a loss. As it was, however, the price of United States Steel was that day quoted at 133⅝—an advance of 2⅝ points, and the broker was able to dispose at once of Mr. Smart's holdings and even make a profit on the deal.

This incident illustrates the "human-nature" side of the stock brokerage business. Some customers cannot be trusted; others again need never have their honesty questioned, even tho at times they should depart somewhat from the customs imposed by ethical practice.

Broker and Client

The broker is never indifferent to his customers' interests. Many times he is asked to carry their commitments thru a period of storm, when owing to their temporary embarrassment they are unable to finance them fully. This he does cheerfully, if he is reasonably certain that the customer means well and that his indisposition is but a matter of adjusting his bank balance. Such generosity, however, not infrequently leads to loss, for sometimes the broker mistakes his man. The honest customer invariably appreciates such assistance, and this liberal treatment often leads to an addition to the broker's list of customers.

Disgruntled clients are the chief source of the broker's troubles. Such customers are always looking for some technical violation, committed by him

without intention or thought of harm. Brokers who become defendants in actions of that sort generally settle out of court, because the time and trouble to which they would be put in defending a suit usually amount to more in dollars and cents than the sum to be adjusted.

One reason for not wishing to defend such an action is the general ignorance of court officers with regard to the technical points in a broker's business. Wall Street has so often been characterized, more or less openly, by the courts as a community of criminals that a prejudice generally exists, and the broker's case is in danger of being lost before the testimony in support of his contentions is fully adduced.

The Cashier's Department

In the Cashier's Department the day's sales are delivered and the purchases of the previous day are received. Before ten o'clock the Clearing House distributes the Balance-to-Receive and the Balance-to-Deliver tickets which were deposited with the Clearing House Sheet the day before. These tickets contain the names of the brokers from whom the Clearing House stocks are to be received or to whom such securities are to be delivered. In yesterday's transactions there may have been recorded purchases of 5,000 shares of Steel and an offsetting sale of 5,400; in which case the broker is called upon to deliver today only 400 shares as his balance. It may be that of this allotment A & CO. are designated to receive 300 shares and B & CO. the remainder; or it may be

that the entire block of 400 shares are to be sent to one broker who will have filed a Balance-to-Receive ticket with the Clearing House for that many shares.

Beginning at ten o'clock also, stock for which payment must be made at once will reach the offices of the receiving broker. The clerk in charge of this work will examine the certificate to determine the quality of delivery; i. e., the genuineness of the certificate, its negotiability and the name in which it is registered. If it be registered in the name of a person who is not a member of the Stock Exchange, it becomes imperative for the broker seeking to make delivery to have such unknown signature guaranteed by a Stock Exchange concern or by some local bank.

Sometimes the broker's trained eye will detect a forgery that would pass unnoticed in the case of others. Not long ago a stock clerk chanced upon a certificate which had a shade of printing a trifle different from that of other shares issued by the same company. The stock was refused and the company was requested to certify the genuineness of the stock before payment would be offered upon delivery. The certificate proved to be a rank imitation!

No loss, however, would usually result even were the bogus shares to be received, for the person who makes delivery impliedly guarantees their validity. If at a later date the error is discovered, restitution at once takes place upon demand being made on the delivering broker. The shares are then traced back until the culprit is found and brought to justice. Very few cases of forged stock certificates are on

record in Wall Street, because shares pass so frequently that detection would be a matter of but a short time.

The delivery clerk attends to all the outgoing stock, the receipts and the certification of the checks received in payment. All odd-lots of stock and bonds purchased and sold are similarly handled so that at closing time all transactions will have been settled for.

Release of Stock Pledged

As already mentioned, one way to finance the purchases of customers is to lend stock to those who need the shares for delivery purposes. Frequently, however, money must be borrowed from banks, in which case stock is pledged as collateral. A broker may have pledged 1,000 shares of United States Steel bought for a customer weeks before. When the customer in turn sells that stock, the broker must deliver it. Consequently, the latter withdraws from his collateral loans the desired stock and substitutes therefor securities of approximately the same market value and equally acceptable to the bank. These releases, as they are called, are among the things to which the cashier must attend during the delivery hours—10 a.m. to 2.15 p.m.

Adjustment to Market Level

Should there be a break in the market price of stocks loaned out to other brokers—a frequent occurrence—it becomes necessary to make an adjustment to the new market level. In that case the broker who

borrows the stock issues a "mark-down" to the lender, upon receipt of which the latter refunds such difference as exists between the old and new prices. A concrete case will illustrate this type of transaction.

Broker Jones loans to Broker Smith 1,000 shares of Studebaker for $150,000. In truth, Jones by this transaction is borrowing the money from Smith and merely pledging the stock as security. Since he is a borrower of funds, Jones is of course expected to pay interest for the use thereof. Now let us suppose that tomorrow the price of Studebaker declines from 150 to 134. In that case Jones will have borrowed $150,000 on securities which at the present market level are worth only $134,000. Sound, good business principles require Smith to demand of Jones a refund of a part of the sum loaned, equal to the depreciation of the collateral borrowed. Consequently a check will be drawn by Jones to the order of Smith, and the loan will be marked down from $150,000 to $134,000.

It happens just as often, however, that the market has a fit of "runaways" with rising prices of securities. In that case the process is reversed, the lender of securities issuing a mark-up to the borrower, the latter paying the additional sum required to adjust the difference in price. In either case the thing is to keep the amount of money advanced on a parity with present market prices. All such marking operations occur between the hours of 10 and 3.

Before 3 p.m. the cashier probably finds that the bank balance is much below the stipulated minimum deposit mark. An order goes out promptly to the floor member to borrow sufficient funds to make good the deficiency in the deposit standard at the bank. A loan is arranged and before 3 p.m. the collateral securities are sent to the lending bank.

The subject of deposit standards is not always understood by the outsider. That represents merely a part of the arrangement between broker and banker whereby the former agrees to keep a minimum daily balance of a certain sum. In consideration of this promise the bank agrees to lend the broker on a so-called day note or clearance loan a sum of money sufficient to help him pay for the stocks and bonds which he may receive during the delivery hours, and which, either during or after such delivery hours, are pledged as collateral to secure funds. The funds so secured are in turn applied toward the liquidation of the clearance loan contracted at the depositor's bank. Without such an arrangement the conduct of a brokerage business would become well-nigh impossible, for the amount of cash required during a day's operations generally far exceeds the broker's personal resources.

The broker will do his utmost to keep his bank balance always up to the mark. Should he nevertheless be unable to do so, the bank will enter into another agreement with him whereby a smaller credit will be allowed the broker. This, however, is purely a matter

of credits and is governed by fixed rules. Wherever the balance carried by the depositor does not warrant a large credit extension, the banker is compelled to exercise due caution so as not to assume undue risk.

Accounting for Stocks

It devolves upon the cashier's department to enter in the Stock Record the position or place of deposit of every share of stock that comes into the broker's hands. Some shares will be at the transfer offices of the issuing companies awaiting registration. Other shares will be lodged in bank loans. The latter are invariably stocks that could not be loaned to other brokers on the Exchange because of poor borrowing demand for them. Still others will have been loaned at full market value to such members of the board as had occasion to borrow stocks on account of short sales by their clients. It is more profitable, of course, to lend the stocks to such Exchange members, since in that case full market value is advanced, whereas only between 60 to 80 per cent is allowed by lending banks on collateral loans. Stocks that are not pledged or loaned will be accounted for by the vault list which records the stocks that are kept in the vault. Subsidiary books are also kept, so that the stock record will always be fully supported by ample detailed information.

Interest Rates

The cashier's department also has charge of the records which show the lending and the borrowing

operations of the firm. Most of the loans contracted contain a right to demand repayment of the money loaned on very short notice. As the rate of interest on all call loans—including such stock loans as may have been made to other brokers—is ever changing, the cashier must keep himself constantly informed of changes in the interest rates. The one who is to be benefited by the change must notify the one who is to yield the benefit. Bargaining is resorted to until the competitive forces fix the rate for that particular day. All loans are then renewed at the rate generally agreed upon.

The broker's borrowing is achieved either thru the lending of stocks to brokers or the pledging of stocks with banks. On the Exchange there is a constantly changing opinion as to the future trend of stock prices. At times the "bears" preponderate; at others the "bulls." Where there is a surplus of stocks to be loaned—which is another way of saying that stocks are in less demand than money—the rates of interest paid by the brokers with stocks to lend will invariably be much higher than bankers' rates for call money.

Where stocks are in great demand by the bears who have sold short and must borrow stocks, the rates of interest at which stock lenders may obtain money will be so low that the call money market will appear greatly out of line. Thus on a certain day call money rates were quoted at 5 per cent. On the same day, one stock, known as General Motors, was so greatly in demand on the Exchange that those who had it to lend received the use of money in exchange for their

stocks, free of all interest charges. In other words, the stock loaned "flat"—which means that no interest is attached to the loan. The next day call money advanced to 6 per cent, and the borrowers of General Motors stock not only loaned their money without interest, but were actually compelled to pay an additional consideration in the form of a premium for the use of the stock. Sometimes this charge for premium may amount to as much as $150 per day for each 100 shares borrowed.

Dividend Records

The dividend records are also to be found in the Cashier's department. Some customers are "short" of stock and are chargeable with the declared dividend if they remain short over the dividend period. Other customers are "long" of stock; they are entitled to receive credit for the dividend. When a corporation declares a dividend to stockholders of record, those who are owners are manifestly entitled to the distribution. It means that part of the company's assets are being distributed. Theoretically, at least, the value of the stock ought to decline to the extent of the declared dividend. In practice it does, on the day of disbursement. If, therefore, a person who is short of the stock borrows the needed shares from one who is the equitable owner of them, the latter justly looks to the person to whom he loaned the stock for the dividend declared. Consequently the "short" broker, who had possession of the shares when the dividend was declared, must account to the owner for

any increment which the stock carried during his temporary possession. The cashier must so arrange his records that all dividends can be properly accounted for without uncertainty or loss of time.

Other Records

The Bookkeeping department in a stock brokerage business is an important department. The assistants, of whom there are many, attend to the recording of customers' transactions. The duplicate memoranda confirming the purchases and the sales are journalized either in blotters or journals and the proper debit or credit entries are posted to the ledgers. At the end of each month statements are rendered, showing the balances due to the broker and the long or the short commitments still open in the customers' accounts. Interest at current rates is charged on all debit balances. The interest, if not paid when due, becomes part of the new principal upon which interest is calculated during the ensuing month.

Other clerks in that department attend to the recording of the stamp taxes levied on all sales made on the Exchange. Proper statement must be prepared each month for the Government office, giving in detail an accounting of all transactions made by the broker and the amount of revenue paid by him.

The story of Wall Street is a story of millions changing hands daily as the result of the country's business of investment and speculation. It is a story of brains, of keen foresight and of prompt action. Above all, it is a story of human interest.

Incidentally, it explains the important function of the stock broker and shows that he has a great deal of work to do and a great deal of responsibility to assume before he can collect his commissions.

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